



# MULTI MANAGER TARGET RETURN FUND

QUARTER 4 (Q4) 2016: OCTOBER TO DECEMBER

Welcome to the latest edition of the Multi Manager Target Return Fund quarterly update. In this edition we review

- Some key moments and economic events impacting on investment markets during Quarter 4 (from October to December)
- Which asset classes were up and which were down?
- The structure of the fund and a summary of the fund managers and their strategies as we welcome a new manager, MidOcean.
- The drivers of the very strong performance since launch in January 2016 (+6.3%) by strategy and by individual fund.

Returns shown are to 31 December 2016 and are gross, before any charges or tax.

The Multi Manager Target Return Fund invests in a number of external funds managed by expert investment managers. The underlying funds invest in a wide range of assets, using a variety of investment strategies. This fund aims to achieve a gross return of 4% over cash, measured over a rolling four-year period. This is an Irish Life fund managed by Irish Life Investment Managers (ILIM).

## 1 UNIQUE MULTI MANAGER APPROACH:

- Accesses world class, diversified manager styles and skill sets
- Reduces single manager or single fund selection risk
- A robust and flexible manager selection process seeks to maximise investment opportunities

## 2 CLEAR CASH + TARGET RETURN:

- Aims for a gross return of 4% per annum over cash\* measured over a rolling 4-year period\*\*
- Targets positive returns not directly linked to market ups and downs

## 3 BENEFIT OF TARGET RETURN FUNDS:

- Seeks equity-like returns with less volatility (volatility is potential ups and downs that a fund may experience over time)
- Diverse source of return which helps smooth the investment journey.

**Warning: If you invest in this fund you may lose some or all of the money you invest.**

**Warning: The value of your investment may go down as well as up.**

**Warning: This fund may be affected by changes in currency exchange rates.**

\* 4% return over cash, where cash is measured by EONIA (Euro Over Night Index Average) which is the rate at which banks provide loans to each other with a duration of 1 day. 4% target is gross of standard charges and net of external manager variable charges.

\*\* This means that the return will be calculated as the average annual return achieved over the previous four years.

# QUARTER 4 2016 ECONOMIC LOOK-BACK

By David Haslam

## REFLATING AFTER DEFLATING...

Equity markets had a strong finish to 2016 and were positive over the last three months (Quarter 4). The election of Donald Trump focussed markets on his campaign promises of increased infrastructure spending and reducing corporate taxes which could lift not just US growth prospects, but global growth also. This was very positive for shares and pushed them higher. Over the same period, however, government bonds experienced losses as market expectations of better growth and higher inflation grew, causing yields to rise and prices to fall. The interest rate increase in the US plus the higher return prospects from shares made government bonds less attractive to investors. While yields are slightly higher they are still low in a historic context with German 10 year government bonds still only yielding 0.2%.

## THE DONALD

It would be hard to comment on Quarter 4 2016 without mentioning the change of guard of leader of the free world. Against all the odds, Donald Trump succeeded in getting elected as the next US President. His style is very different to any holder of the Oval Office in recent memory and has created an uncertain but, for now cautiously optimistic outlook for the US and by extension the rest of the world.

## HARD BREXIT

Continued uncertainty and 'harder' language around the potential impact of Brexit on UK and European economies has led some forecasters to fear a difficult transition for all concerned. However, towards the end of Quarter 4, a combination of better than expected UK economic data and a softening of the UK government approach to talks helped reduce those fears somewhat.

## DING DONG DOLLAR

Currency markets are notoriously difficult to call and can be quite volatile as they are influenced by so many different factors. The US Dollar is 'the reserve currency of the world' and is used not only to buy goods and services in the US but also globally in the pricing of other assets like gold and oil. The Trump election success coupled with political uncertainties in Europe meant the exchange rate between the US Dollar and the Euro swung very much in favour of the Dollar over Quarter 4 moving from 1.12 to finish the year around 1.04. In other words, if you have a Euro in your pocket, it used to buy \$1.12, it now only buys \$1.04.

## SHARES, BONDS, COMMODITIES AND CURRENCIES...

World shares rose 4.2% while European shares rose 6.2% over the quarter. Further afield, the Japanese share market was up 15% driven by a weakening of their currency, the Yen, versus other currencies. Emerging Markets underperformed falling 1.4%, largely driven by the potential negative impact of some of Trump's foreign policies on their economies. In bond markets, the Eurozone >5yr bonds fell 4.7%, with German 10 year bonds moving back into positive yields having briefly been as low as -0.12%. The Euro weakened against the Dollar but strengthened against Sterling in a volatile period for the currency. Commodities rose 5.8% over the quarter with oil rising by over 11% as OPEC agreed to cut production levels in late November.

Source: David Haslam, Head of Retail, Irish Life Investment Managers (ILIM), January 2017.

# QUARTER 4 2016 FUND UPDATE

By Peter Haran, Head of Alternative Strategies

Peter Haran is the Head of Alternative Strategies at ILIM. Peter joined ILIM from the National Treasury Management Agency (NTMA) in 2014 where he was Head of Investment Strategy for the National Pensions Reserve Fund (NPRF) for seven years. As chair of the NPRF Investment Committee, Peter was responsible for identifying investment opportunities and proposing tactical asset allocation positions across all asset classes. Before joining the NTMA Peter was a fund manager at IIU Asset Strategies.

Peter has a degree in Applied Mathematical Sciences and a Masters in Computer Applications from Dublin City University.



The Multi Manager Target Return Fund was launched in January 2016. The fund invests in a range of external funds managed by world class investment managers. We strongly believe that target return funds should be delivered in a manner that reduces fund selection and single manager risks, while benefiting from the increasing number and type of strategies available in the market place. This is achieved in the Multi Manager Target Return Fund by investing in a range of investment strategies through multiple external fund managers.

## FUND STRATEGIES

The Multi-Manager Target Return Fund has returned +6.3% since it was launched in January of 2016 and a return of -0.5% in the Quarter 4.

A number of non-directional strategies performed well during the quarter but Diversified Market Return strategies gave back some gains from earlier in the year. Trend strategies also experienced a reversal in fortunes during the quarter. The Quarter 3 addition of Putnam MAARS has started positively, with the fund contributing a return of +1.1% for the three months.

Credit strategies continued to perform well with both PIMCO and BlackRock contributing.

**Warning: Past performance is not a reliable guide to future performance.**

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## PORTFOLIO UPDATES

Towards the end of Quarter 3, the Putnam Total Return Fund was replaced with the Putnam Multi Asset Absolute Return Strategy. During Quarter 4, a further fund manager, MidOcean, was given an allocation through the addition of the DB Platinum MidOcean Fund.

## FUND STRUCTURE

The Multi Manager Target Return Fund consists of a mix of core and satellite fund strategies.

The "core" portion of the portfolio is invested primarily to provide exposure to more traditional asset types such as shares and bonds. By investing in a variety of different investment styles, the core strategy aims to deliver diverse market based returns with lower risk than broader share markets.

The "satellite" portion is invested to provide diversification to these traditional asset types. Satellite strategies make up a smaller portion of the fund and seek to achieve higher returns through external manager skill rather than market performance alone.

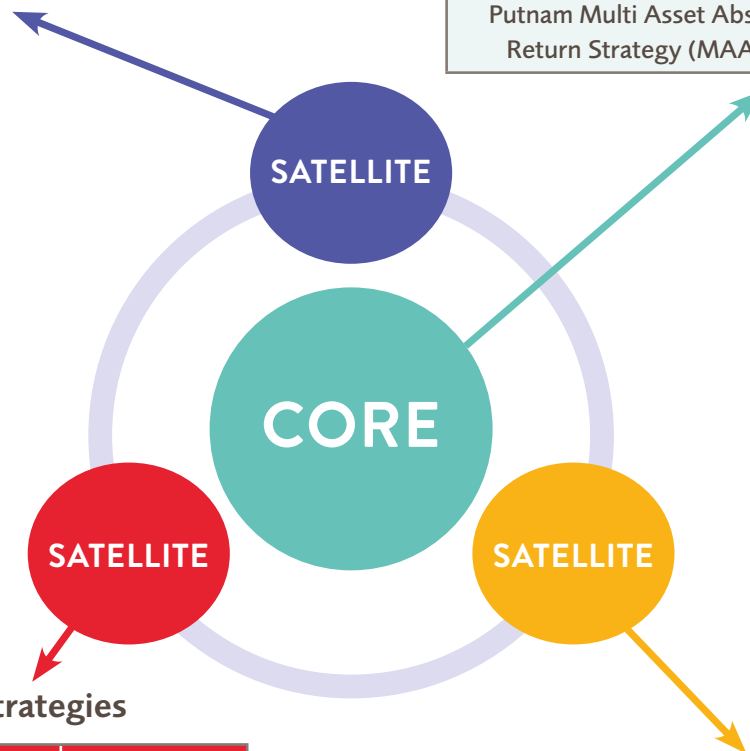
# CORE AND SATELLITE STRATEGIES

## Alternative Return Strategies

FUND	MANAGER ASSETS
JP Morgan Systematic Alpha Fund	€1.77tn*
AQR Style Premia Fund	\$175bn***

## Diversified Return Strategies

FUND	MANAGER ASSETS
GMO Real Return Fund	\$78bn**
AQR Global Risk Parity Fund	\$175bn***
Putnam Multi Asset Absolute Return Strategy (MAARS)	\$152bn***



## Global Opportunity Strategies

FUND	MANAGER ASSETS
Montlake Dunn WMA Fund	\$956m***
Morgan Stanley Alpha Fund	\$2.1tn*
DB Platinum MidOcean Fund	\$6bn***

## Credit Strategies

FUND	MANAGER ASSETS
Blackrock FIGO Fund	\$5.1tn*
PIMCO Income Fund	\$1.55tn*

\*Correct as at September 30 2016.

\*\*Correct as at November 30 2016.

\*\*\* Correct as at December 31 2016.

### ALTERNATIVE RETURN STRATEGIES

These are non-traditional strategies relying on 'hedge fund' / skill based strategies.

### DIVERSIFIED RETURN STRATEGIES

These strategies aim to deliver share market type returns using different investment approaches.

### GLOBAL OPPORTUNITIES STRATEGIES

These managers monitor themes or trends in markets and invest to take advantage of identified opportunities. Some are very short term, some are over longer periods.

### CREDIT STRATEGIES

These strategies aim to generate return by investing in traditional and non-traditional types of credit such as corporate bonds and mortgage backed securities.

# FUND SUMMARY

## DIVERSIFIED RETURN STRATEGIES

<b>GMO Real Return Fund</b>	This is an actively managed portfolio of assets with GMO choosing these assets across different asset classes driven by their own internal models, which focus strongly on valuations.
<b>AQR Global Risk Parity</b>	This large, well-diversified fund chooses investments based on a risk-weighting approach and aims to provide higher risk-adjusted returns than traditional market exposures. The fund consists of over 50 underlying investments across three main asset categories.
<b>Putnam Multi Asset Absolute Return Strategy (MAARS)</b>	This actively-managed fund has two parts - one investing in a number of asset classes across broad and diversified market exposures. The other is around opportunistic pair trading. This is where skilful managers take opposite positions (buy/sell) in two different stocks aiming to make more in one than they lose in another which gives a neutral market position overall and avoids market risk.

## ALTERNATIVE RETURN STRATEGIES

<b>AQR Style Premia</b>	This fund aims to produce high, risk-adjusted returns while maintaining low-to zero correlation to traditional markets. This is achieved by constructing a global diversified, absolute return portfolio with exposure to a number of investment styles.
<b>JP Morgan Systematic Alpha</b>	This fund consists of a global portfolio of investments and aims to provide a total return in excess of its cash benchmark by implementing strategies similar to those employed by hedge funds using liquid instruments.

## CREDIT STRATEGIES

<b>BLACKROCK FIGO</b>	This fund is a global fixed interest fund that aims to generate returns from long and short exposures in credit markets. Typically, the fund may have exposure to many non-traditional credit risks such as mortgage-backed securities and emerging market debt which helps diversify the more traditional fixed interest investment exposures found in multi-asset funds.
<b>PIMCO Income</b>	This fund seeks to generate a competitive monthly dividend while also maintaining a focus on a long term return. The fund aims to achieve this by employing PIMCO's best income generating ideas across global fixed income sectors with an explicit mandate on risk-factor diversification.

## GLOBAL OPPORTUNITIES STRATEGIES

<b>Montlake Dunn WMA</b>	This fund focusses on medium to long-term investment trends. It takes long and short positions in financial, energy, metal and agricultural futures markets. This fund aims to generate profits from investments with a very low correlation to traditional asset classes.
<b>Morgan Stanley Diversified Alpha</b>	This fund aims to give a net 10% annual return over a market cycle, with lower than equity market volatility. This is achieved by identifying several, multi-year investment trends (for example China weakening, a European recovery and US rates rising sooner than the market expects) and investing in asset classes that will benefit accordingly. All positions and themes are actively reviewed and managed.
<b>DB Platinum MidOcean</b>	This fund exploits persistent efficiencies in the high yield bond market, with a focus on callable bonds.



The funds that the Multi Manger Target Return Fund invests in may change over time. For the actual Multi Manager Target Return Fund mix, see the latest factsheet at [www.irishlife.ie](http://www.irishlife.ie)

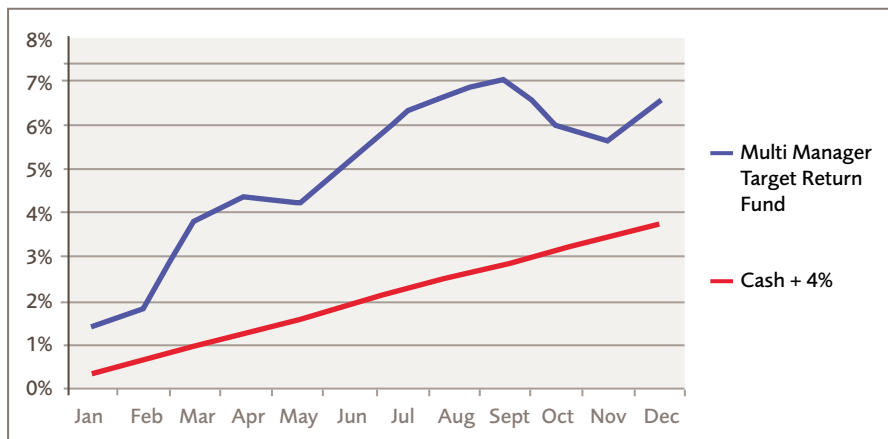
# PERFORMANCE

## Market Volatility

The quarter was characterised by reversals in fixed income trends, the U.S. presidential election and the resultant Trump rally. Alternative strategies often favour periods of heightened volatility as this creates potential for generating returns from temporary mispricings and possible asset class volatility. Managers implementing relative value trades and market neutral share strategies favour such environments. Not all strategies benefit from sudden shifts however, as seen from losses experienced by trend managers following the fixed income reversal. The Multi Manager Target Return Fund held up well through the quarter, with non-directional strategies contributing well throughout the period.

### PERFORMANCE SINCE LAUNCH AGAINST CASH PLUS 4% BENCHMARK

The fund has continued its strong start and is performing in excess of benchmark. Diversified return strategies performed well through the year with all three managers contributing. Credit continued to contribute positively in Quarter 4 with Alternative return strategies also having a strong final quarter.



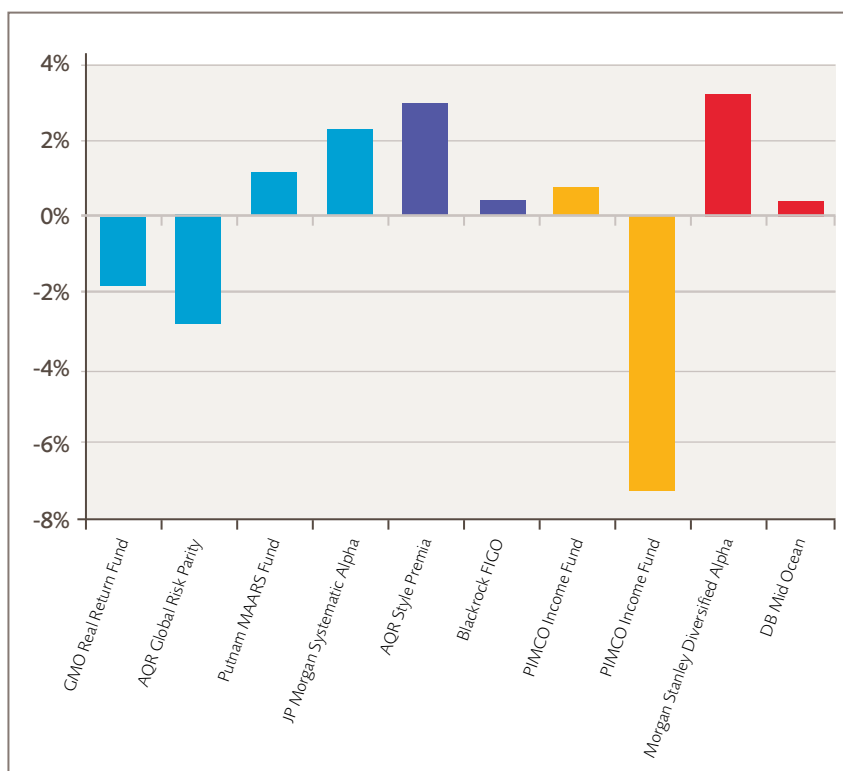
Source: Irish Life Investment Managers (ILIM).

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### PERFORMANCE BY FUND DURING THE QUARTER

AQR Style Premia had a good Quarter 4 with a number of elements contributing particularly shares and bonds. Diversification benefits are evident in that currencies were the strongest contributor for the year. JP Morgan Systematic Alpha also enjoyed a strong quarter. Market neutral strategies (where market direction does not drive returns), which have been through a difficult period, generated the majority of returns in 2016 along with strategies that rely on events like corporate takeovers, for example. The new additions of Putnam MAARS and December's addition of MidOcean have both started well, with positive returns.

Note: the contribution to performance of an individual strategy or fund depends on the weight of that strategy or fund in the overall fund. Source: Irish Life Investment Managers (ILIM). Returns shown are to 31 December 2016 and are gross, before any charges or tax.



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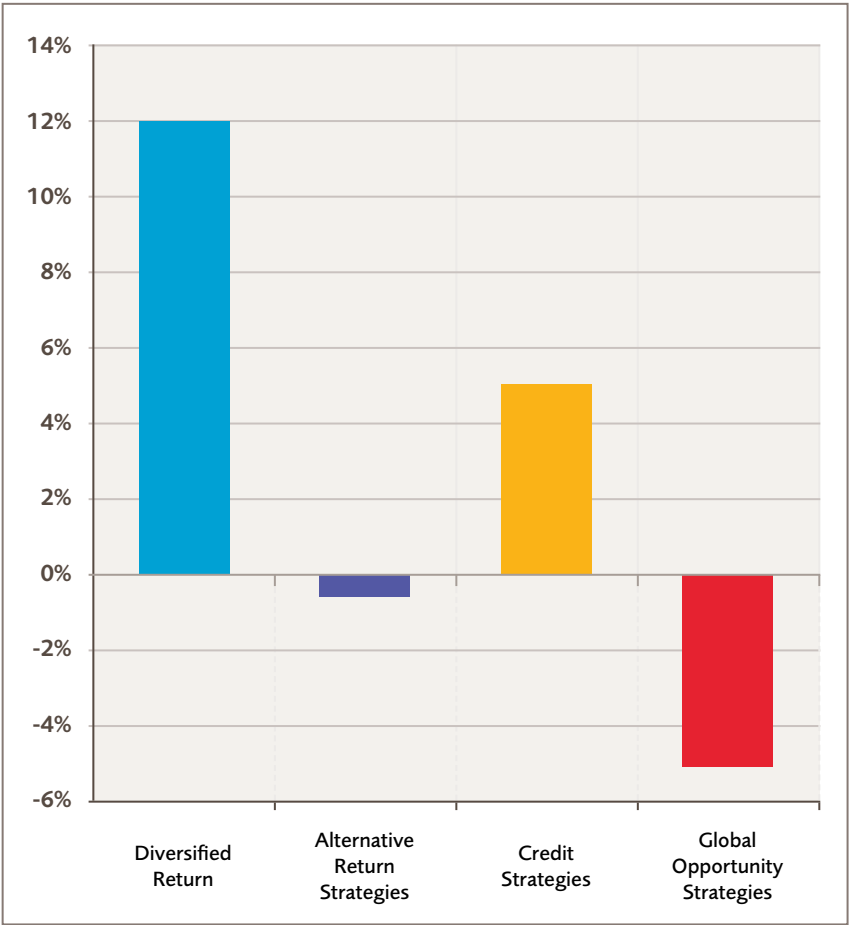
PERFORMANCE BY STRATEGY SINCE LAUNCH

**Diversified Returns** – This strategy which has exposure to risky assets such as shares, bonds and commodities, performed strongly from the launch in January through to the end of the year. GMO Real Return, AQR Global Risk Parity and Putnam Total Return Fund all contributed positively. At different stages of the year strong returns came from developed shares, bonds, commodities and emerging market shares.

**Alternative Returns** – Alternative Returns, which replicate hedge fund type strategies saw an uplift in performance in Quarter 4 with both managers performing well. Strategies such as arbitrage and market neutral strategies contributed.

**Credit** – The Credit portion of the portfolio was again up for the quarter. Credit markets have performed well in 2016, with contributions coming from high yield and investment grade credit, duration and securitised assets such as commercial mortgage-backed securities and residential mortgage-backed securities.

**Global Opportunities** – An addition was made in the form of DB Platinum MidOcean Fund, the investment strategy of which is mainly focussed on exploiting inefficiencies in the callable bond market.



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## ILIM'S CREDENTIALS

### *About* Irish Life's investment managers

Our investment manager is internationally recognised for their expertise, innovation and track record and are multi award winners:



#### **2014 European Pension Award Winners -**

- Best Equity and
- Best Passive Manager Awards.

The only Irish investment manager to win an award and the only manager in Europe to win 2 awards.



**2014 Irish Pension Awards -**  
Alternatives Investment Manager of the Year.

**2015 Irish Pension Awards -**  
Investment Manager of the Year.

**2016 Irish Pension Awards -**  
Passive Manager of the Year.



Our investment manager takes care of over

**€60 BILLION**

(as at 31/12/2016).

**For more details please see [www.irishlife.ie/investments](http://www.irishlife.ie/investments) or contact your financial broker or financial adviser.**

Irish Life Investment Managers Limited is regulated by the Central Bank of Ireland.  
Irish Life Assurance plc is regulated by the Central Bank of Ireland.